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## **Ukraine**

## **Retail Food Sector**

## **Report**

## **2001**

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### **Report Highlights:**

**Ukraine's retail and wholesale sectors have been rapidly changing the methods of food distribution with new supermarkets and cash and carry stores offering greater varieties of food.**

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Includes PSD changes: No  
Includes Trade Matrix: No  
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## **Executive Summary**

Ukraine's retail and wholesale food sector is a mixture of traditional and modern systems. There was concern after the breakup of the Soviet Union and the disintegration of the old state-run distribution system that food supplies would be disrupted. Traditional farmers' markets and small stores remain the primary retail outlets. However, new companies have emerged in recent years, mostly with some foreign investment, which will modernize the system of distribution and sale of food products. These new companies are mostly centered around the capital, Kiev. However, they are quickly spreading to other major Ukrainian cities such including Odessa, Dnipropetrovsk, Kharkiv, Donetsk and Lviv. The stores will most likely not emulate the hyperstores of western Europe but will be smaller in size and fully integrated.

## **Bazars/Rynoks**

Since the early 1920s, farmers' markets have served as retail outlets for fruits, vegetables, meats and dairy products. Farmers have been allowed to sell their products in these markets at higher prices. During communist times, product quality was higher and the assortment wider in these markets. As of January 1, 2001, there were 32 large food markets in Kiev, most of which were opened after the breakup of the Soviet Union, at every large metro station in the city. Since the early 1990s prices in these open markets have been lower than in stores mostly due to the fact that the individual venders who sell at the markets purchase can usually avoid paying any official taxes and offer products at the low prices than in the stores.

Today, these markets sell very high quality fruits and vegetables, most of which is imported. It is not unusual to see South African blueberries, Egyptian oranges and South American bananas for sale. In addition, there is a variety of locally produced meat and dairy products. There is also a wide variety of cut flowers many from Holland and South America delivered daily by plane.

Given the relatively small sale volumes, vendors purchase all of their products from 5-7 large wholesale markets in Kiev. Merchants at the wholesale markets usually work through local importers, wholesale companies or producers to obtain products.

## **Kiosks**

Immediately after the breakup of the Soviet Union, kiosks (6-7 square meter metal structures with one or two windows to display products) sprang up haphazardly selling all types of products including cigarettes, liquors, candy and soft drinks. The role of the kiosks has significantly declined in the Ukrainian retail market because of the mandatory introduction of the cash registers and the prohibition on the sale of hard liquor through trade establishments smaller than 20 square meters. The kiosks continue to be outlets for food products although their proliferation has slowed also due to the better assortment of food products in stores. The remaining kiosks are concentrated near public transportation, metro exists and major intersections. They offer a limited number of products (100-150 items on average) with extended shelf life. Kiosk venders usually purchase their products from wholesale rynoks or cash and carry stores. The kiosks normally operate 24 hours a day and sell at a higher prices than in stores and the rynoks.

## **Retail Stores/Gastronomys**

Small stores continue to be the mainstay for retail sales in Ukraine. There is very little differentiation of stores as in Soviet times. Driving through Kiev or any other Ukrainian city, signs indicating “Fruits and Vegetables” or “Gastronome” can be seen on every other street. In contrast to Soviet stores, however, these stores contain a wide variety of processed food products including imported food products.

The gastrons are considered to be convenience stores because they are conveniently located, usually within walking distance from apartments. On average, these stores may stock 1-2 thousand products. The main categories of products sold in the gastronome would be bread and bread products, dairy products, grocery items, alcohol, and soft drinks.

Most stores have been privatized and purchase products from the producers, cash and carry stores and or from the wholesale markets. The stores prefer to purchase imported food products from importers rather than importing directly.

### **The New Wave of Hyperstores and Wholesalers**

Over the past four years, western-style retail and wholesale outlets have begun to emerge in Ukraine first in and around Kiev and then to other major cities. Most of these enterprises, at least initially, had some foreign investment but are currently managed by Ukrainians.

**Product Base.** These stores on average sell 75 - 80 percent Ukrainian-produced food products and 20 - 25 percent imported products. The imported products included wine and beer, bakery products, olive oil, pasta products, cereals and some processed fruit and vegetable products. Juice, soft drink, processed food products, beer and alcohol are produced in Ukraine. The quality and uniformity of Ukrainian products have improved over the past 10 years although some products continue to be packaged in Soviet-era containers (i.e. non-resealable bottles).

These new “cash and carry” stores are open to the general public and not limited to wholesalers. Prices for bulk purchases are discounted. Given the limited storage space for Ukrainians, there is apparently no concern that individuals will purchase large amounts for home use. The average size of these “cash and carry” stores is approximately 7000 square meters.

**Different Approaches.** There are three or four major western-style outlets which are currently operating in Ukraine. Each has taken a slightly different approach to the market. One company is seeking to develop a fully integrated system including production of product, wholesale, distribution and retail marketing of all products. In terms of retail outlets, the management envisions stores of 800 - 1000 square meters. This same company is also involved in exporting specialized products to Ukrainians who have emigrated to Israel and Europe.

A second company is developing a wider arrange of products and services at their stores, more in the sense of a mall consisting of individual stores rather than one large hypermarket. The stores would include not only food sales, but also dry cleaning, stationary and auto part sales. Both companies would have their own distribution system providing delivery of products to stores. Moreover, these stores are venturing into the production of certain processed products.

Two European-based stores are focusing primarily on retail sales rather than wholesale, distribution or production. These stores are more in the mold of European hypermarkets with both food and non-food items for sale in each store.

**Imports** The larger cash and carry stores import some food products directly and have special branches to deal with customs clearance. It would be valuable for potential exporters to contact the new supermarkets and cash and carry stores to determine the potential demand for specific imported products. Supermarkets, however, prefer to purchase most of imported food products and alcohol from direct importers in Ukraine to avoid costly customs clearances and product certification procedures. The supermarkets can decide whether to import the product directly or through intermediaries.

### **Stores at the Gas Stations**

The number of gas stations has tripled since the independence and more are still being constructed along the highways and in the cities. The majority of gas stations is owned by private individuals and the companies. About 30% of all gas stations also have small stores. The stores at the gas stations procure products in the same manner as the small convenience stores at the open wholesale markets and cash and carry stores; however, some signs of consolidation has appeared.

The development trend shows that increasing number of gas stations that were owned by the individuals and small companies are now purchased by larger companies. This makes consolidated shipments for 10-30 gas stations feasible. The Russian gas traders, like Lukoil, have also began to purchase and built new gas stations in Ukraine with the mini-stores.

### **What the Future Holds**

Although these western-styled operations offer a much larger variety of products than traditional stores, managers of two companies believe that retail outlets will remain small in comparison to hypermarkets in Europe. One factor which may support this trend is the lack of consumer mobility. Unlike Poland in which the increase in car ownership has coincided with an explosion of large hypermarkets, Ukraine has not had the same experience. Given costs of fuel and lower salaries, automobile ownership has not increased significantly compared to other countries in Central Europe. As a result, Ukrainian consumers still rely on local neighborhood stores for food purchases. This consumption pattern should continue for the foreseeable future.

It would appear that some stores are seeking to develop fully-integrated systems rather than focusing solely on retail or wholesale sales. These stores are looking to supply equipment for packaging to local producers. Whether or not this approach is successful is unclear.

Ukrainian consumers, especially in the big cities, are increasingly demanding more ready-to-eat products. Some stores are already producing some local dishes such as ready-to-cook frozen dumplings. Most believe that these types of food products will become more popular in the future.

## Advertising

**Billboards.** Although billboards are very visible in Ukraine, stores have difficulty competing with tobacco and alcohol advertising. At the same time, stores cannot put up their own billboards due to strict regulations and bureaucracy.

**Direct Mailing** Some stores, like Euromart Cash and Carry, have begun to do direct mailings of sales every month to preferred customers informing them about the discounts. However, for the most part, there is very little advertising of food products in Ukraine.

**Metro.** One of the most cost effective ways to advertise the new stores has been direct distribution of leaflets to people exiting metro stations. Stores often times hire students to distribute leaflets. Another way to advertise in the metro has been using posters in the metro cars. The most recent advertising campaign in Kiev City Metro was by the Fozzy Cash and Carry company which focused on the advantages of their stores vs. gastronoms and rynoks. The major slogan of the campaign is “Even a box of matches (Note: usually, the lowest priced item in the stores though the FSU) cost less at Fozzy” because they do not have to pay high rents in the center of Kiev.

**TV and Radio Newspapers.** Because there are no national supermarket chains in Ukraine, advertising on national television, radio or newspapers has not been used. Instead, new stores focus their advertising on FM stations that operate in large cities where they have stores and on weekly advertisement newsletters that are distributed free of charge to every apartment in Kiev.

### General Statistics on Population and Retail Trade in Ukraine

Indicators	1990	1995	1996	1997	1998	1999
Population of Ukraine, as of Dec. 31, mln. people,	51.9	51.3	50.9	50.5	50.1	49.7
Number of privately owned cars, per 1,000 people.	63	87	93	96	100	102
Number of retail outlets, 1,000 including:	145.7	133.7	n.a	127.5	121.0	111.6
- stores	120.6	109.5	n.a	99.7	94.3	85.4
- kiosks	25.1	24.2	n.a	27.8	26.7	26.2
owned by employees and consumer cooperatives						
- stores	73.6	83.7	n.a	81.5	74.7	67.6
- kiosks	9.4	3.9	n.a	2.5	1.5	1.2
privately owned						
- stores	-	4.7	n.a	7.2	8.1	8.0
- kiosks	-	5.9	n.a	4.2	4.2	4.1
stores located in						
- cities	60.1	61.3	n.a	60.6	58.9	53.8
- rural areas	60.5	48.2	n.a	39.1	35.4	31.6
Floor area of stores, catering facilities, 1,000 square meters	11300	10950	n.a	n.a	8767	7755
Number of open markets in urban areas	1576	1282	n.a	1551	2120	2320
The volumes of food products sales, mln hryvna (UAH) <sup>1</sup>	7546.5	n.a	n.a	n.a	11336.7	12049.0
The shares of food and non-food products in retail trade, %	44 56	63 37	67 33	64 36	59 41	54 46

<sup>1</sup> The rate of exchange (UAH/US\$) between was as follows: 1.8 (Jan. 1, 1996); 3.42 (Jan. 1, 1998); 5.22 (Jan. 1, 2000).

**Per capita food consumption, kilograms per year.**

<b>Product</b>	<b>1990</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Meat and meat products, including edible meat offal and poultry)	68	39	37	35	33	33
Milk and dairy products in fluid milk equivalent	373	244	230	210	213	210
Eggs, pcs.	272	171	161	151	154	163
Fish and fish products	17.5	3.6	4.3	5.0	5.9	7.2
Sugar	50	32	33	31	32	33
Vegetable oils	11.6	8.2	8.6	8.4	8.2	8.9
Potatoes	131	124	128	134	129	122
Vegetables	102	97	92	91	94	96
Fruits, berries and grapes	47	33	35	40	28	22
Bread products (bread, macaroni, flour, groats, pulses)	141	128	124	127	126	122

**Household Income and Expenditures in Ukraine, million UAH**

	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Monetary Income, total</b>	<b>26498</b>	<b>40311</b>	<b>50069</b>	<b>54379</b>	<b>61865</b>
Including, salaries	15641	23723	25600	26209	30657
sales of agricultural products by households	671	1081	1496	1938	2845
pensions, social security payments, stipends	5163	9894	12518	12710	14737
<b>Money Expenditures and Savings</b>	<b>24784</b>	<b>38961</b>	<b>47933</b>	<b>53376</b>	<b>59518</b>
Including, purchases of goods and services	20140	27450	31876	34867	41832
payments, fees, donations	2156	3918	5223	5568	6750
increase in money savings and purchase of stocks and bonds	383	2436	2585	2523	4556
purchase of foreign currency	1997	4928	7758	9618	4864

**Structure of expenditures by households in 1999**

Items	UAH per months per household
All money expenditures	382.9
Including:	
Food*	56.1
Alcohol	2.1
Tobacco	2.2
Non-food products	17.7
Services	17.4
*Food consumption per month per household, kilograms	
– meat and meat products	3.7
– milk and dairy products	18.7
– eggs, pcs	19
– fish and fish products	1.3
– sugar	2.7
-- vegetable oils and fats	1.5
– potatoes	10.2
– vegetables	10.0
fruits, berries, nuts, grapes	2.0
– bread and bread products	9.1



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